Annual Report 1970

International Harvester Company of Canada, Limited

International Harvester Company of Canada, Limited

General Office: 208 Hillyard Street, Hamilton, Ontario

Annual Report for the year ended October 31, 1970

Contents

Summary of 1970

	1970	1969
Sales	$249,307,000	$260,938,000
Net Income	$ 2,031,000	$ 3,261,000
Per cent of Sales	.81%	1.25%
Per cent of Equity Capital — Beginning of Year	2.25%	3.63%
Dividends Paid	$ 600,000	$ 2,850,000
Income Retained	$ 1,431,000	$ 411,000
Taxes — Federal, Provincial and Local	$ 14,126,000	$ 15,524,000
Capital Expenditures	$ 3,845,000	$ 4,332,000
Depreciation	$ 3,715,000	$ 4,463,000
Long-term Debt	$ 4,198,000	$ 5,854,000
Equity Capital at End of Year	$ 91,682,000	$ 90,251,000
Average Number of Employees	5,828	6,189

Officers and Executive Committee (left to right): W. N. Smith, W. Haslam, W. R. Fleming, R. D. Musgjerd, E. L. Edmonds, W. J. Guziak (standing), W. D. Drummond, J. L. Wade.

Directors and Officers at December 31, 1970

BOARD OF DIRECTORS

Charles C. Brannan	Walter J. Guziak
Robert H. Burnside	Brooks McCormick
William E. Callahan	Robert D. Musgjerd
W. Duncan Drummond	Daryl B. Oldaker
William R. Fleming	W. Norman Smith

OFFICERS

Robert D. Musgjerd	*President*
W. Duncan Drummond	*Vice President, Operations*
William R. Fleming	*Vice President, Motor Truck Sales*
W. Norman Smith	*Vice President, Finance*
Walter J. Guziak	*Comptroller*
William Haslam	*Treasurer*
Earle L. Edmonds	*Secretary*

OTHER EXECUTIVES

John L. Wade	*Director of Sales, Farm Equipment and Construction Equipment*
William H. Hagerman	*Manager, Manufacturing*
T. Donald Husband	*Manager, Motor Truck Sales*
Alex R. McCombe	*Manager, Construction Equipment Sales*
Charles J. Munro	*Manager, Farm and Industrial Equipment Sales*
Lawrence J. Murphy	*Manager, Credits and Collections*
Ronald E. Penfold	*Manager, Engineering*
Charles W. Wolfard	*Manager, Supply and Inventory*

New Products for the '70s

The Travelall appeals to the growing recreational market.

The model 3200 hydrostatic compact loader meets contractors' needs.

The Hamilton-made 620 drill is popular throughout North America.

Cutting and conditioning is easy with a Hamilton-made windrower.

The Chatham-built Cargostar series has broad job applications.

The Cadet 60 with 32" mower enjoys a wide suburban market.

President's Letter

1970 was a year of limited growth in the Canadian economy, and many of the industries which we serve experienced a decline in business activity. This softening of our markets resulted in our sales for 1970 being below the 1969 level. We did protect our position in the market, however, as sales of IH products in 1970 did not suffer to the same extent as the industry in general.

Industry truck sales were down considerably from last year's records in all categories. We were able to increase our sales of heavy-duty trucks, particularly diesel models, and did not experience as severe a decline as the industry.

The construction industry was expected to operate at a high level in 1970. Decreased government spending for construction projects and prolonged strikes in the construction and woods industries did not permit this to materialize.

The market for farm machinery declined for the third consecutive year as wheat surpluses continued to plague the western economy. Farm business outside the prairie provinces was also down in 1970. Sales of IH farm equipment followed the industry trend to the lowest level in many years.

On the brighter side, our expanding line of lawn and garden tractors continued to increase in popularity. Sales of industrial tractors, loaders and logging skidders were slightly above last year, our all-time high.

Our export business in 1970, the highest in our history, was more than double that of four years ago. We expect to maintain this level in the coming year.

The revaluation of the Canadian dollar in mid-1970 had a significant adverse effect on our Company's profits. Had the currency remained at its set rate all year, our profits from operations would have approximated those of 1969, despite the reduced sales volume.

This was achieved mainly as the result of our continued emphasis on profit improvement programs. Value engineering projects were completed in our manufacturing plants and sales and distribution functions were restructured for more efficient operations. Direct cost reduction programs, designed to reduce overhead immediately, were very successful.

In line with our objectives of broadening our markets, we acquired Pacific Truck & Trailer Manufacturing, Ltd., of Vancouver, British Columbia. This company specializes in the production and sale of heavy-duty trucks, trailers and equipment for the logging industry.

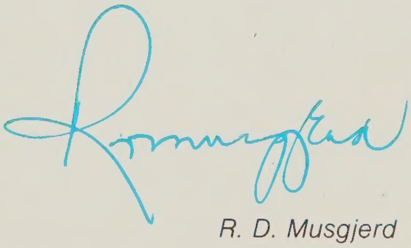
As we look to 1971, indications are that we can expect a moderate improvement in the demand for our products. With the apparent easing of monetary restraints and the lowering of interest rates, the overall economy should improve significantly in the coming year.

Sales of trucks and industrial equipment should increase at a pace consistent with the growth of the economy. Farm equipment sales should improve as the potential foreign orders for wheat and feed grains appear to be the strongest in several years. We expect greater activity in the construction and natural resources industries, particularly in British Columbia and Quebec.

We look forward to an improvement in our profits during the coming year. Our results will be influenced significantly by the final settlement on the value of the Canadian dollar and by pending labour negotiations.

In 1971, most of our union contracts will expire, including the two major production and maintenance agreements at our manufacturing plants. The magnitude of the settlements being negotiated recently in related industries and in the United States is cause for deep concern. We have a large and growing export business to protect and our competitive position is in jeopardy whenever increases in wages and fringe benefits exceed gains in productivity.

On behalf of the Board of Directors and the management, I express our sincere appreciation to all International Harvester employees, dealers and distributors for their efforts in the past year, and look forward to their support in making 1971 more successful.



R. D. Musgjerd

Summary of Operations

TOTAL 1970 TRUCK SALES SET MARK

Sales of International trucks, service parts and service were slightly higher than in 1969 which was a record year. Increased export sales, mainly to the United States, enabled us to achieve this new high.

Domestic truck sales were lower than in 1969 by about 2 per cent. The industry sales were down more than 5 per cent, with most of this decline occurring in light trucks. In the face of reduced sales in the industry as a whole, we experienced continued growth in the heavy-duty categories, particularly those with diesel power. This type of performance is indicative of the leadership of International in the heavy-duty truck field.

Export sales of trucks built at our Chatham, Ontario plant reached an all-time high in 1970. Over 70 per cent of all trucks produced at Chatham were exported. Most of these sales were to the United States market as this business continues to expand as a result of our participation in the Canada-United States Automotive Trade Agreement. These sales consist mainly of the new and popular Cargostar models. The Cargostar series which is engineered and built only at Chatham Works for sale throughout North America, includes a wide range of medium and medium-heavy cab-over-engine trucks.

In 1971, we expect to export trucks in about the same volume as experienced in 1970.

INCREASED MARKET PARTICIPATION FOR IH FARM EQUIPMENT

Although total sales of farm equipment in Canada were down in 1970, International Harvester products did fare better than the industry as a whole. Our total sales volume of machines and parts enabled us to increase our overall market penetration.

The problems in the major wheat producing areas in 1968 and 1969 continued throughout 1970. The over-abundance of wheat and certain other grains on the world market has caused lower demand and lower prices for the Canadian products. As the farm economy in the west is vitally dependent upon export sales of its products, three consecutive years of depressed markets have greatly reduced the farmers' incentive and ability to invest in capital goods. Retail sales of combines offer a dramatic example of the effects of the economic situation in the prairie provinces on the farm equipment industry. In 1967, almost 9,000 combines were sold in Canada, while in 1970, total sales will be only slightly more than 3,000. Sales of agricultural machinery in the eastern regions were also down in 1970 to further depress the industry.

Toward the end of the year, there was considerable evidence of improvement in the market for western agricultural products. If foreign wheat sales materialize to the point that the confidence of the prairie farmer is restored, the demand for farm machinery in those regions could be immediate and quite substantial. We feel that our sales of farm equipment will improve in 1971, particularly in the western provinces, although in the long term it is apparent that some major readjustments are required in the western farming situation before that area can regain full and lasting prosperity.

Export sales of products manufactured at our Hamilton plant constituted about 50 per cent of our total farm equipment business. This is the highest ratio of export to total sales of this product line in our history. Export sales increased by 16 per cent over 1969. The biggest factor in this increase was the Hamilton-engineered and built crawler tractor, the 500-C.

CONSTRUCTION EQUIPMENT SALES DECLINE IN 1970

Total sales of construction equipment in Canada were disappointing in 1970. The market, which has a tendency to be uncertain, was quite buoyant at the beginning of the year, but this condition rapidly deteriorated and the final results were below expectations.

We expect to see considerable improvement in the construction equipment business in the coming year, and we feel we are prepared to capitalize on opportunities as they develop. The product line we now offer, consisting of our Canadian-built rubber-tired loaders and loggers, plus a wide range of scrapers, dozers, pushers and

Workloads for the '70s

International 915 combine loads grain for hauling by International Loadstar truck.

Candiac-made Hough Pay logger snaking out logs.

Hamilton-made 500-C crawler demonstrates its versatility.

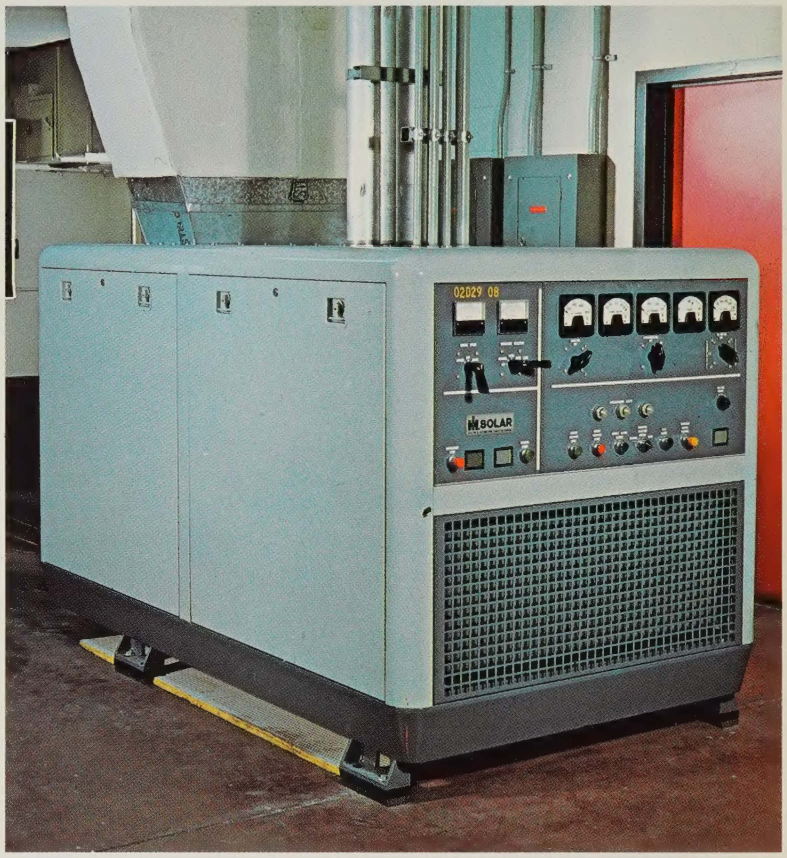
International TD-25C crawler working on the Welland Canal tunnel project.

Cub Cadet tractor with hydrostatic drive and high flotation tires.

Giant Pacific logging truck hauling timber in Malaysia.

Profit Builders for the '70s

The new 645 Vibra Chisel cultivator in action with a 1456 Turbo tractor.



A Solar 200 KW emergency generator set installation at Bell Canada, Toronto.

M-623 and Fleetstar International trucks are familiar sights on construction jobs.

Hough H-400 Pay loader teams up with 180 Pay hauler to change the landscape.

off-highway trucks and the International line of crawler tractors and crawler loaders, is the most complete available.

In 1970 we undertook the engineering of the S-7C Pay logger, a logging skidder. This machine is built at our Candiac Works in Candiac, Quebec, and sold throughout North America. This is the first time that we have exported, in quantity, products manufactured at Candiac.

ALL OTHER SALES IMPROVE

Retail sales of International industrial tractors and equipment were higher than in 1969, making 1970 our best year for this product line. Lawn and garden tractor sales were about the same for the past two years. The continuing popularity of the Cub Cadet series for lawn and garden use, and our expanding line of industrial tractors, will enable us to grow as the market expands for these products.

Sales of Solar equipment, consisting mainly of gas turbine stationary power units, were maintained at virtually the same level in 1970 as in 1969.

TERRITORIAL CHANGES

A re-organization of the Company's district sales functions in 1970 resulted in the consolidation of all Saskatchewan and Manitoba territories for both trucks and farm equipment into district offices in Winnipeg.

Two new truck retail branches were opened in 1970, one at Thunder Bay, Ontario, and the other in Moncton, New Brunswick. A farm equipment store began operations in Tupperville, Ontario.

SUBSIDIARY ACQUIRED

In 1970 we acquired Pacific Truck & Trailer Manufacturing, Ltd., of Vancouver, B.C., as a wholly-owned subsidiary of International Harvester Company of Canada, Limited. This company manufactures and sells large trucks, trailers and equipment primarily for use in the logging industry. Pacific Truck & Trailer has a factory and retail branch in Vancouver and four other retail branches in British Columbia. In addition to domestic sales, they export to other countries.

This association brings with it some products in categories that are new to us. We, in turn, can offer services, facilities and marketing abilities. Our affiliates and distributors abroad will supplement existing overseas outlets.

TWINE MILLS CLOSE

For a number of years, the manufacture of agricultural twine in Canada has been a marginal proposition. Increased pressure from off-shore competition, which benefits from low cost labour and government subsidization, has eroded the entire industry in Canada. As there is no restriction on the importation of this low cost agricultural twine, our choice was to market our Canadian-made twine at a loss or close down the Hamilton Twine Mills. The Mills, which began operation in 1925 and once employed 400 people, were closed in April, 1970, and arrangements have been made to import IH agricultural twine.

EMPLOYMENT DOWN IN 1970

The Company's average employment was 5,828 in 1970. This compared with 6,189 in 1969. In the past year, production schedules were lower at Hamilton Works, the Hamilton Twine Mills ceased operations and, as predicated by a lower volume of business, fewer people were employed in sales and distribution functions.

Compensation paid employees in 1970 amounted to $46,000,000, with an additional total of $8,000,000 paid out for insurance, medical and pension plans and other fringe benefits.

EXECUTIVE CHANGES

Fred H. Cobb, comptroller since 1967 and a member of the Board of Directors, died unexpectedly after a brief illness. Mr. Cobb joined International Harvester Company in 1947.

Walter J. Guziak was appointed comptroller, succeeding Mr. Cobb. At the same time he was elected to the Board of Directors.

Emerson A. Welles, manager of manufacturing since 1966, elected to retire. Mr. Welles joined International Harvester Company in 1934.

William H. Hagerman was appointed manager of manufacturing to succeed Mr. Welles.

Auditors' Opinion

DELOITTE, PLENDER, HASKINS & SELLS
CHARTERED ACCOUNTANTS
105 MAIN STREET EAST, HAMILTON, ONTARIO

To the Shareholders of
International Harvester Company of Canada, Limited:

We have examined the Statement of Financial Condition of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1970 and the Statement of Income and Income Retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have made a similar examination of the Statement of Financial Condition of the Company's wholly-owned non-consolidated finance subsidiary, International Harvester Credit Corporation of Canada Limited as at October 31, 1970.

In our opinion these financial statements present fairly (a) the financial position of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1970 and the results of their operations for the year then ended, and (b) the financial position of the Company's wholly-owned non-consolidated finance subsidiary, International Harvester Credit Corporation of Canada Limited as at October 31, 1970, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 11, 1970

Deloitte, Plender, Haskins & Sells

Basis of Financial Statements

CONSOLIDATION POLICY

The net income of the finance subsidiary, International Harvester Credit Corporation of Canada Limited, and its income retained are combined herein with the consolidated group. The equity capital of the finance subsidiary appears as an investment in the Statement of Financial Condition. A separate Statement of Financial Condition of the subsidiary is on page 16.

During the year, the Company acquired all of the capital stock of a Canadian company and its subsidiaries. The Statement of Financial Condition contains the net assets of these companies at June 30, 1970, their fiscal year end which corresponds with date of acquisition.

INVENTORY VALUATION

Inventories have been valued at the lower of cost or market, market being considered as replacement cost, which does not exceed net realizable value.

DEPRECIATION

Depreciation has been computed by the declining balance method at rates generally calculated to absorb the cost of property during the period of its useful life.

DEFERRED INCOME TAXES

The Company and its subsidiaries follow the accounting practice of providing the total amount of income taxes applicable to the income reported in the year regardless of the year in which the income taxes are actually payable. This practice was adopted in 1968 with the resulting adjustment being recorded over a two-year period.

Prior to 1970, certain tax timing differences were handled on a net-of-tax basis. In 1970, these differences have been shown at the gross amounts and deferred income taxes related to them have been included as an asset in the balance sheet. The 1969 statements have been recast on the same basis to be comparable in this report. The change has no effect on net income after taxes.

Statement of Income and Income Retained

For the Years Ended October 31, 1970 and 1969

	1970	1969
SALES AND OTHER REVENUES		
Sales		
Dealers and users in Canada	$158,730,178	$184,437,951
International Harvester Company	88,723,804	74,482,827
Other affiliated companies and jobbers	1,852,947	2,016,825
	249,306,929	260,937,603
Net income of finance subsidiary (page 16)	1,618,297	2,071,296
Other income, less sundry income deductions	(360,372)	203,694
TOTAL	250,564,854	263,212,593
COSTS AND EXPENSES		
Cost of sales	221,825,134	232,753,218
Selling and administrative expenses	20,410,841	20,801,360
Charges for financing services on wholesale notes sold to the finance subsidiary	4,761,906	4,772,499
Interest expense	1,588,703	893,472
Taxes on income (page 13)	(52,469)	730,497
TOTAL	248,534,115	259,951,046
NET INCOME	2,030,739	3,261,547
DIVIDENDS PAID	600,000	2,850,000
INCOME RETAINED — FOR THE YEAR	1,430,739	411,547
— AT BEGINNING OF THE YEAR	75,251,091	74,839,544
— AT END OF THE YEAR	$ 76,681,830	$ 75,251,091

The information referred to by page number above and the Basis of Financial Statements presented on page 8 are an integral part of this statement.

Statement of Financial Condition October 31, 1970 and 1969

ASSETS

	1970	1969
CURRENT ASSETS		
Cash	$ 98,658	$ 96,044
Demand notes receivable from finance subsidiary	6,200,000	3,100,000
Receivables		
Trade accounts	11,721,395	12,603,284
Miscellaneous	1,631,260	1,154,505
Due from affiliated companies	5,601,923	3,722,171
Due from finance subsidiary	1,984,347	2,157,871
Deferred income taxes	1,144,288	792,510
Inventories	53,177,916	54,219,375
TOTAL CURRENT ASSETS	81,559,787	77,845,760
INVESTMENT IN FINANCE SUBSIDIARY		
(Statement of Financial Condition on page 16)		
Equity in net assets	15,481,206	15,062,909
OTHER ASSETS	3,851,002	1,578,495
PROPERTY (page 12)		
Real estate, machinery and equipment — at cost	66,604,924	65,449,148
Less accumulated depreciation	37,628,899	35,956,054
NET PROPERTY	28,976,025	29,493,094
TOTAL ASSETS	$129,868,020	$123,980,258

The information referred to by page number above and the Basis of Financial Statements presented on page 8 are an integral part of this statement.

LIABILITIES AND EQUITY CAPITAL

	1970	1969
CURRENT LIABILITIES		
Bank indebtedness	$ 2,373,356	$ 1,436,574
Notes payable	6,000,000	—
Current invoices and accruals	13,717,688	14,635,728
Accrued taxes	1,532,583	2,029,498
Current maturities of long-term debt	1,919,500	1,884,700
Due to affiliated companies	7,821,800	7,327,457
TOTAL CURRENT LIABILITIES	33,364,927	27,313,957
LONG-TERM DEBT		
5¼% notes—maturing November 1, 1973 payable in equal semi-annual instalments	1,800,000	2,600,000
6% note—maturing December 31, 1972 payable in semi-annual instalments (U.S. 1970—$2,000,000; 1969—$3,000,000)	2,169,400	3,254,100
6% debenture—maturing November 15, 1977 payable in monthly instalments	228,200	—
TOTAL LONG-TERM DEBT	4,197,600	5,854,100
DEFERRED INCOME TAXES	623,663	561,110
EQUITY CAPITAL		
Capital stock		
Authorized, issued and fully paid—150,000 shares of $100 par value	15,000,000	15,000,000
Income retained (page 12)	76,681,830	75,251,091
TOTAL EQUITY CAPITAL	91,681,830	90,251,091
TOTAL LIABILITIES AND EQUITY CAPITAL	$129,868,020	$123,980,258

Approved by the Board: R. D. Musgjerd, Director
W. J. Guziak, Director

Financial Review

SALES

Total sales in 1970 were $249,307,000. This is a reduction of $11,631,000 from 1969. Export sales of all product lines were at record high levels in 1970, but this was not enough to offset considerably lower sales in Canada of farm and construction equipment. Domestic sales of trucks were also down while industrial tractors and lawn and garden equipment were up slightly.

INCOME

Earnings were $2,031,000 compared to $3,261,000 in 1969. The effects of lower sales and higher costs were generally offset by the implementation of profit improvement programs. However, we were unable to overcome the adverse effects of the floating dollar on our export sales.

INCOME RETAINED

The balance in Income Retained at October 31, 1970 was $76,682,000 as compared with $75,251,000 at the close of the previous fiscal year. The amount retained for the 1970 fiscal year was $1,431,000. This compares with $411,000 for the prior year.

At October 31, 1970 $35,293,000 of International Harvester Company of Canada, Limited Income Retained was restricted as to payment of cash dividends by a long-term debt agreement covering its 5¼ per cent notes.

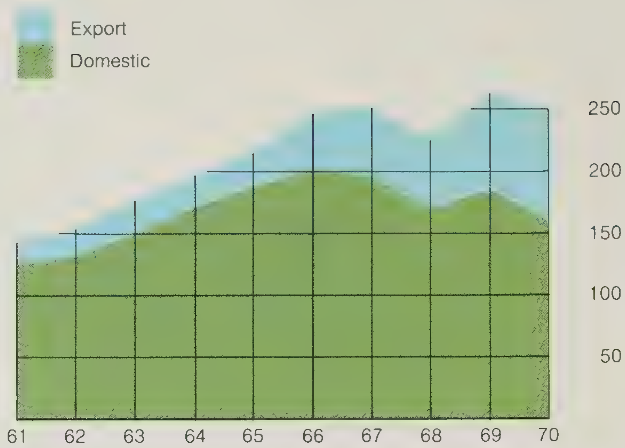
CAPITAL EXPENDITURES

Capital expenditures decreased from $4,332,000 in 1969 to $3,845,000 in 1970. Certain capital programs were curtailed because of the prevailing high interest rates and the slowing of the economy. The effects of these expenditures and of other factors, including depreciation upon the property account, are displayed as follows:

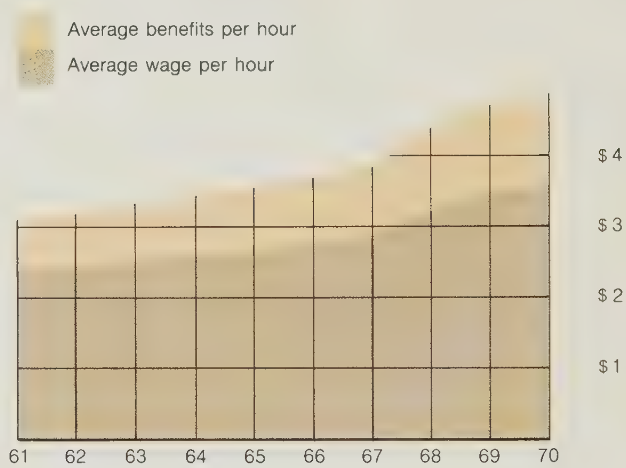
Net property at October 31, 1969		$29,493,000
Changes during 1970 fiscal year		
Capital additions	$ 3,845,000	
Depreciation	(3,715,000)	
Net book value of property dispositions	(647,000)	
Net decrease during the year		(517,000)
Net property at October 31, 1970		$28,976,000

Capital expenditures in 1971 are not expected to be higher than those of 1970. At October 31, 1970 appropriated balances carried forward totalled $671,000. Commitments on appropriations in progress at October 31, 1970 approximated $404,000.

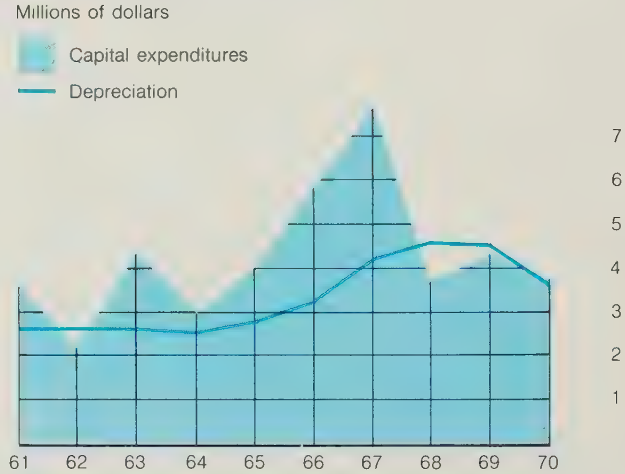
SALES
Millions of dollars



EMPLOYEE AVERAGE HOURLY EARNINGS



CAPITAL EXPENDITURES AND DEPRECIATION
Millions of dollars



WORKING CAPITAL

Working capital of the Company (current assets minus current liabilities) decreased by $2,337,000 in 1970 — from $50,532,000 at the beginning of the year to $48,195,000 at the end of the year.

An analysis of working capital added by operations of the past two years appears below:

	1970	1969
Net Income of the Company	$ 412,000	$1,190,000
Dividends from finance subsidiary	1,200,000	1,200,000
Depreciation	3,715,000	4,463,000
Total	$5,327,000	$6,853,000

INVENTORIES

Inventories decreased during the year by 1.9 per cent. The inventories at October 31, 1970 of $53,178,000 consisted of approximately 65 per cent finished machines, attachments and service parts, the rest being raw materials, work-in-process and supplies. Inventories were increased in 1970 by $2,074,000 due to the acquisition of Pacific Truck & Trailer Manufacturing, Ltd.

INCOME TAXES

The following schedule shows the components of income tax expense:

	1970	1969
Current	$ 283,034	$1,540,897
Deferred — net	(335,503)	(810,400)
Total	$ (52,469)	$ 730,497

The tax allocation basis adopted in 1968 and referred to on page 8 resulted in an increase in the 1969 income of $609,605 (of which $442,105 was attributable to the finance subsidiary).

Tax audits have been completed and settled through the 1968 fiscal year for the Company and its finance subsidiary.

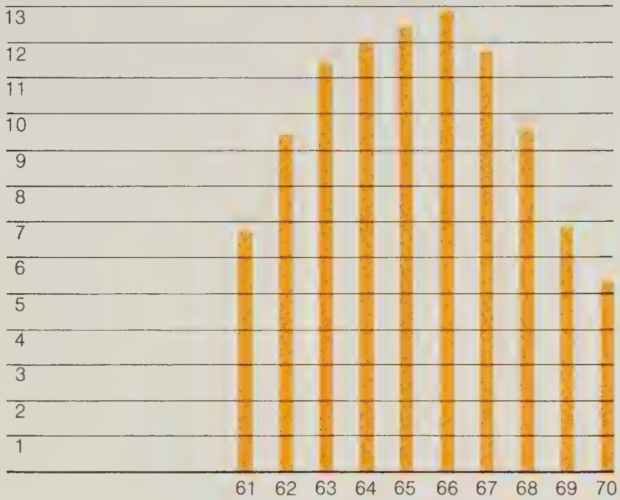
RETIREMENT PLANS

The Company has retirement plans in effect for eligible salaried and hourly-rated employees. Past service costs are being funded over twenty-five years from January 1, 1964. The estimated unfunded liability in respect of past service benefits at October 31, 1970 was $20,300,000 of which $15,800,000 was vested in accordance with the terms of the plan, but for which the Company does not have a legal obligation. Contributions charged to income by the Company in respect of these plans were: 1970 — $2,412,000; 1969 — $3,312,000.

A change during the year in actuarial assumptions had the effect of creating an experience surplus of which approximately $800,000 has been used to reduce Company contributions to the plans during 1970.

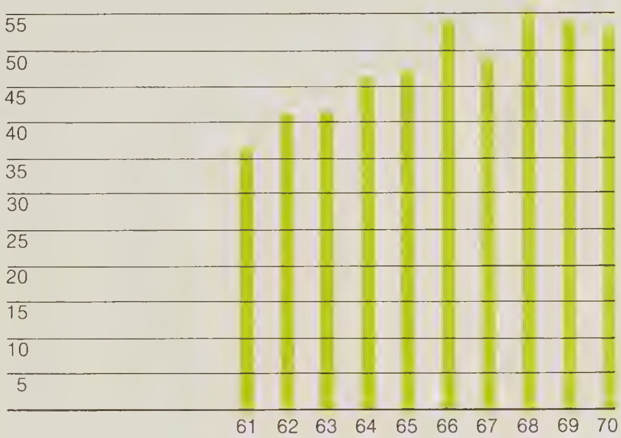
WORKING CAPITAL ADDED BY OPERATIONS

Millions of dollars



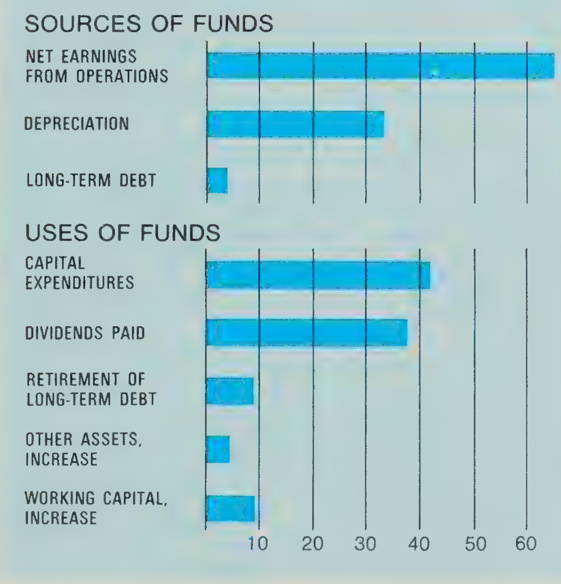
YEAR-END INVENTORIES

Millions of dollars



FUNDS STATEMENT, 1961-1970

Millions of dollars



Statistical Data (Dollar amounts in millions)

	1970	1969	1968
SALES BY AREA OF FINAL SALE			
Canada	$158.7	$184.4	$169.0
United States	88.7	74.5	51.7
Europe and Africa	.4	.3	.9
Latin America	1.0	1.1	.7
Pacific Area	.5	.6	.9
Total	$249.3	$260.9	$223.2
NET INCOME			
Amount	$ 2.0	$ 3.3	$ 5.6
Per cent of sales	.81%	1.25%	2.51%
Per cent of equity capital	2.25%	3.63%	6.52%
WORKING CAPITAL CHANGES			
From operations — Note 1	$ 5.3	$ 6.9	$ 9.5
Added by increase in long-term debt	.2	—	3.5
Net effect of changes in other assets, etc.	(1.5)	.1	.3
Total	4.0	7.0	13.3
Used for:			
Capital expenditures	3.8	4.3	3.7
Common stock dividends	.6	2.9	1.6
Retirement of long-term debt	1.9	1.9	—
Total	6.3	9.1	5.3
Increase or (decrease)	$ (2.3)	$ (2.1)	$ 8.0
DEPRECIATION	$ 3.7	$ 4.5	$ 4.6
EQUITY CAPITAL AT END OF YEAR — OCTOBER 31			
Common stock	$ 15.0	$ 15.0	$ 15.0
Income retained	76.7	75.3	74.8
Total equity capital	$ 91.7	$ 90.3	$ 89.8
REPRESENTED BY			
Current assets	$ 81.6	$ 77.8	$ 78.6
Less: Current liabilities	33.4	27.3	26.0
Working capital	48.2	50.5	52.6
Net property	29.0	29.5	29.8
Investment in finance subsidiary	15.5	15.1	14.2
Other assets	3.8	1.6	1.5
Total	96.5	96.7	98.1
Less:			
Long-term debt	4.2	5.9	7.7
Deferred income taxes	.6	.5	.6
Provision for employees' retirement benefits	—	—	—
Total	4.8	6.4	8.3
Total net assets	$ 91.7	$ 90.3	$ 89.8
RATIOS			
Current assets to current liabilities	2.4-1	2.9-1	3.0-1
Equity capital to long-term debt	21.8-1	15.3-1	11.7-1

Note 1. On page 13 under the section "Working Capital" there is shown, as to 1970 and 1969, an analysis of working capital generated by operations.

1967	1966	1965	1964	1963	1962	1961
$193.8	$200.9	$186.5	$170.1	$149.8	$129.7	$123.2
53.7	42.6	25.0	22.6	22.9	22.9	17.1
.8	.4	.4	.7	.7	.7	1.5
.6	.5	.6	.9	.5	.2	.5
1.1	1.3	1.1	1.1	.5	.2	1.1
$250.0	$245.7	$213.6	$195.4	$174.4	$153.7	$143.4
$ 8.0	$ 10.2	$ 9.8	$ 9.9	$ 9.3	$ 7.1	$ 4.7
3.21%	4.15%	4.59%	5.07%	5.33%	4.62%	3.28%
9.87%	13.28%	13.12%	14.10%	14.51%	11.91%	8.17%
$ 11.8	$ 12.9	$ 12.4	$ 12.0	$ 11.4	$ 9.4	$ 6.8
—	—	—	—	—	—	—
.2	(1.2)	.2	(.6)	(1.5)	.1	(.2)
12.0	11.7	12.6	11.4	9.9	9.5	6.6
7.6	5.8	4.0	3.0	4.3	2.1	3.6
3.6	5.6	7.7	5.4	5.0	2.6	2.5
.8	.4	.8	.8	.8	.8	.8
12.0	11.8	12.5	9.2	10.1	5.5	6.9
$ —	$ (.1)	$ .1	$ 2.2	$ (.2)	$ 4.0	$ (.3)
$ 4.2	$ 3.2	$ 2.8	$ 2.5	$ 2.6	$ 2.6	$ 2.6
$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0	$ 15.0
70.8	66.4	61.8	59.7	55.2	49.1	44.6
$ 85.8	$ 81.4	$ 76.8	$ 74.7	$ 70.2	$ 64.1	$ 59.6
$ 65.3	$ 66.7	$ 69.8	$ 65.5	$ 64.4	$ 61.1	$ 52.7
20.7	22.1	25.1	20.9	22.0	18.6	14.2
44.6	44.6	44.7	44.6	42.4	42.5	38.5
31.0	27.7	25.3	24.2	23.9	22.7	23.4
13.6	13.1	11.6	11.3	9.9	9.5	9.2
1.6	1.6	1.1	1.1	1.1	.9	1.0
90.8	87.0	82.7	81.2	77.3	75.6	72.1
4.2	5.0	5.4	6.2	7.0	7.8	8.6
.8	.6	.5	.3	.1	—	—
—	—	—	—	—	3.7	3.9
5.0	5.6	5.9	6.5	7.1	11.5	12.5
$ 85.8	$ 81.4	$ 76.8	$ 74.7	$ 70.2	$ 64.1	$ 59.6
3.2-1	3.0-1	2.8-1	3.1-1	2.9-1	3.3-1	3.7-1
20.4-1	16.3-1	14.2-1	12.0-1	10.0-1	8.2-1	6.9-1

Statement of Financial Condition October 31, 1970 and 1969

ASSETS

	1970	1969
CURRENT ASSETS		
Cash	$ 246,964	$ 101,028
Notes receivable		
Wholesale (less deferred discounts and unearned interest of $463,339 in 1970 and $530,311 in 1969)	49,543,812	55,686,954
Retail (less unearned finance charges of $9,176,634 in 1970 and $7,550,786 in 1969)	61,435,338	51,179,512
	110,979,150	106,866,466
Less allowance for losses	1,715,157	1,660,051
Notes receivable (net)	109,263,993	105,206,415
Deferred income taxes	897,000	867,910
TOTAL CURRENT ASSETS	110,407,957	106,175,353
PREPAID INTEREST AND OTHER ASSETS	434,238	134,546
TOTAL ASSETS	$110,842,195	$106,309,899

LIABILITIES AND EQUITY CAPITAL

			1970	1969
CURRENT LIABILITIES				
Notes and loans due within one year (includes due to affiliates of $12,515,421 in 1969)			$ 59,785,812	$ 63,298,921
Demand notes payable—parent company			6,200,000	3,100,000
Accounts payable (including parent company of $1,984,347 in 1970 and $2,157,871 in 1969)			2,059,575	2,237,781
Accrued taxes			—	839,979
Accrued interest			615,214	514,742
Dealers' contingency credits			1,371,715	1,144,754
TOTAL CURRENT LIABILITIES			70,032,316	71,136,177
SENIOR INDEBTEDNESS				
Notes and debentures—5¾% to 9½% due 1984 or prior			16,217,860	11,000,000
SUBORDINATED INDEBTEDNESS				
Notes—6% to 7¾% due 1984 or prior (includes due to affiliates of U.S. $6,600,000)			9,110,813	9,110,813
EQUITY CAPITAL				
Capital stock				
Authorized—250,000 shares of $100 par value—issued and fully paid 100,000 shares			10,000,000	10,000,000
Income retained	1970	1969		
Balance, beginning of year	$ 5,062,909	$ 4,191,613		
Net income for the year	1,618,297	2,071,296		
Less cash dividends	(1,200,000)	(1,200,000)		
Balance, end of year			5,481,206	5,062,909
TOTAL EQUITY CAPITAL			15,481,206	15,062,909
TOTAL LIABILITIES AND EQUITY CAPITAL			$110,842,195	$106,309,899

Approved by the Board: W. N. Smith, Director
R. D. Musgjerd, Director

Basis of Financial Statements

RECEIVABLES. At October 31, 1970 wholesale notes receivable included $4,606,752 which will mature after October 31, 1971, of which none will mature after October 31, 1972 and retail notes receivable included $37,789,488 maturing after October 31, 1971, of which $15,777,229 will mature after October 31, 1972.

DEFERRED INCOME TAXES. The Company follows the accounting practice of providing the total amount of income taxes applicable to the income reported in the year regardless of the year in which the income tax is actually payable. This practice was adopted in 1968 with the resulting adjustment being recorded over a two-year period. The adjustment increased 1969 income by $442,105.

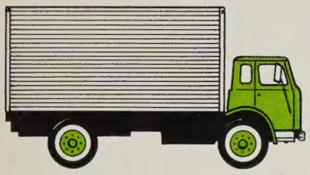
NET INCOME. Earnings on wholesale notes are derived from carrying charges based on the monthly note balances and from a discount which the Company takes into income upon settlement of the notes.

Finance charges included in retail notes are taken into income over the life of the notes.

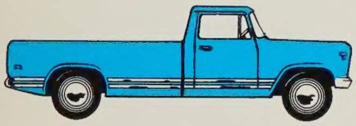
INDEBTEDNESS. Dividend distribution under the provisions of the loan agreements relating to the senior and subordinated indebtedness is restricted to approximately $1,250,000 at October 31, 1970 and $840,000 at October 31, 1969.

Product Ranges for the '70s

International trucks held the spotlight at special showings held in five key Canadian cities, when fleet customers and other special guests were invited to look over the newest and best in heavy-duty truck models.

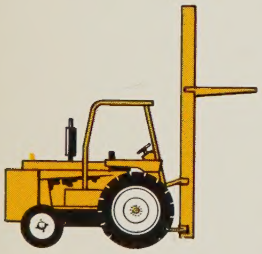


In the medium-duty and heavy-duty ranges International truck nomenclature indicates a line of stars. The Loadstar series continued to enjoy popularity in a wide range of applications, while the Cargostar is a favorite in the local and inter-city delivery field. The Fleetstar-A and the Fleetstar-D provide payload profitability for big and small fleet operators. Transtar 400 with its 92" bumper to back of cab dimension is popular with heavy-duty fleets. The Unistar, a universal highway hauler, automatically converts from two-wheel drive to four-wheel drive as required by road conditions. All International trucks are now equipped with exhaust emission control systems which meet or exceed government requirements.

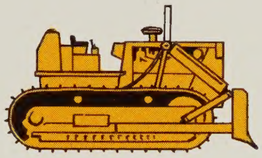


The styling and performance of International light-duty models moved ahead of competition with the introduction of new models late in 1970. In the light-duty field more and more discriminating buyers are discovering that in the long run International trucks cost least to own.

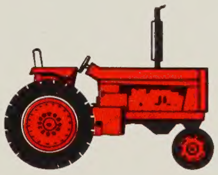
Acquisition of Pacific Truck & Trailer Manufacturing, Ltd., Vancouver, B.C. extended the Company's line of logging trucks into the top category, where extra heavy-duty units are demanded.



Among new products unveiled in the industrial equipment line at mid-year was the model 3200 compact loader, a unit ideally suited for fast, safe, maneuvering in tight quarters. Three new fork lifts: the 4000, 7000 and 8000 series provide lift capacities up to 6,000 lbs. and 28 feet. Six rubber tired loader-backhoes, six crawler tractors in various loader-dozer combinations and a complete line of garden and general purpose wheel tractors with attachments and special-duty equipment make the International industrial equipment line one of the most complete in the world.



International construction equipment moved boldly into the '70s with the claim that it is now the standard of value by which all other machines may be judged. During the year customers' responses to the International line of crawlers and rubber-tired equipment introduced at Phoenix, Arizona, proved the claim no idle boast. By year-end, newly purchased equipment was making profits for owners from coast to coast.



International Harvester farm equipment meets the challenge of changing Canadian agriculture with tractor models and equipment designed to fill every customer's needs. Regional farm equipment shows were held; and the newest farm machinery was shown including two new Hamilton Works products: the 645 Vibra Chisel and the 620 drill.

The engineering and design excellence incorporated in the new machines, and prompt parts availability were contributing factors in expanding International Harvester's share in the market.

Solar products continue to increase their participation in the light, medium and heavy-duty turbine engine markets, with applications ranging from powering compressors and pumping equipment in the natural gas fields of western Canada to emergency power sources for communications systems.